CITY OF SEATTLE

APPLICATION FOR LOAN GUARANTEE

FROM

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FOR AN

ECONOMIC DEVELOPMENT LOAN FUND

IN THE AMOUNT OF $10,000,000

MARCH 15, 2005

A. Introduction

The purpose of this Section 108 application is to assist with economic and community development activities in the City of Seattle. The guaranteed loan funds will be used to create a loan pool targeted to projects that will have positive economic and community development benefits within targeted neighborhoods. Companion Brownfields Economic Development Initiative ("BEDI") funding will be used to support the activities funded from the loan pool, serving as a loan loss reserve and to lower the interest costs.

The City will give funding priority to projects located in the City's Central Area, International District, Southeast Seattle and other areas located in a targeted area defined as City census tracts and census block groups with a poverty rate of at least 20% (households living below the poverty line as determined by the 2000 Census). All projects funded will qualify as "brownfields," defined as abandoned or under-used properties, where expansion or redevelopment is hindered by real or perceived environmental contamination, and consistent with the definition provided in the BEDI NOFA.

Because this application is for a loan fund, Section 108 loans will qualify under one or more of several eligible activities, including 24 CFR 570.703(a), (e), (f), (h), (i), and (l). Similarly, Section 108 loans will qualify under one or more of several criteria for compliance with national objectives, including 24 CFR 570.208(a)(1) - (4) and 24 CFR 570.208(b)(1) - (3). Projects funded under 24 CFR 570.703(i) will meet the public benefit test pursuant to 24 CFR 570.209(b), where applicable. Uses of BEDI funds will qualify under 24 CFR 570.703(c) and 24 CFR 570.703(k) – payment of interest and loan loss reserve.

As each project becomes ready for commitment, the City will submit a loan proposal to HUD with a full description of the project, an explanation of the eligible activity and national objective to be achieved, and analysis of the project's compliance with the City's underwriting guidelines (as described in greater detail below). The City understands that such information will be required prior to release of funds to the City or its custodian for an individual project.

B. Section 108 Submission Requirements

1. Community Development Objectives

The Section 108 loan fund will result in lending for economic and community development in the City of Seattle. In doing so the loan fund will further the City of Seattle's Economic Development Goals as listed in the City's proposed 2005-2008 Consolidated Plan (currently under HUD review).

Within the Economic Development component of the proposed 2005-2008 Consolidated Plan is the following objective: "develop and execute revitalization strategies in the City's economically distressed neighborhoods to meet needs for jobs, retail and commercial services, and affordable housing." As one revitalization strategy, the plan states that the City will make investments, including a $10 million Section 108 loan pool and $2 million BEDI Grant, to support catalytic mixed use development projects.

2. Compliance with 24 CFR 570.208 - National Objectives.

Section 570.200(a)(2) requires that all CDBG activities meet one of three National Objectives. Section 570.208 defines the three national objectives as: 1) benefit to low and moderate income families; 2) aid in the prevention or elimination of slums or blight; and 3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available.

Projects assisted with the Section 108 loan fund will benefit low and moderate income individuals and families by creating and retaining jobs, providing area benefit, providing affordable housing or serving limited clientele. The loan fund may also help eliminate conditions of blight.

3. Compliance with 24 CFR 570.703 – Eligible Activities

Each of the projects to be assisted with the Section 108 loan fund will be eligible under 24 CFR 570.703. Because this application is for a loan fund, Section 108 loans will qualify under one or more of several eligible activities: 703(a)(acquisition); 703(e)(clearance, demolition, removal); 703(f)(site preparation); 703(h)(housing rehabilitation); 703(i)(economic development activities) or 703(l)(public facilities).

None of the projects assisted with the Section 108 loan fund will be used for the ineligible activities provided in Section 570.207(a): buildings used for the general conduct of government, general governmental expenses, or for political activity.

4. Section 570.209 Guidelines and Objectives for Evaluating Project Costs and Financial Requirements.

All activities eligible under Section 570.203 and some eligible under 570.204 must meet the requirements of Section 570.209. This section outlines underwriting guidelines for ensuring that a proposed project carries out an economic development objective in an appropriate manner. These guidelines under 570.209(a) are not mandatory but serve as a framework for financially underwriting economic development projects. The City has developed underwriting guidelines consistent with 570.209 and described in greater detail in Section C below. Each project assisted with the Section 108 loan fund to which Section 570.209 is applicable will comply with the City's underwriting guidelines.

All projects assisted with the Section 108 loan fund to which Section 570.209 applies will comply with the standards of subsections 570.209(b)(1), (2) & (3). Section 570.209(b)(1) establishes the standards for evaluating public benefit in the aggregate, Section 570.209(b)(2) applies those standards and 570.209(b)(3) establishes the standards for individual activities.

C. City's Underwriting Guidelines

In evaluating proposed projects the City of Seattle intends to use the following criteria:

1. Project Management

The City of Seattle - Office of Economic Development (OED) will manage the fund. OED will underwrite all loans with assistance provided by its consultant National Development Council (NDC) to advise on project feasibility. NDC has a more than 35-year track record of assisting local governments in structuring and implementing economic development and housing projects.

Prior to submitting legislation for a Section 108 loan to City Council, OED shall convene a meeting of its City Loan Committee to consider the loan proposal. Committee members shall have a minimum of two weeks to review the loan proposal prior to the meeting. At the conclusion of the meeting, the Committee members shall advise whether to recommend approval of the loan proposal. OED shall prepare and distribute meeting minutes to Committee members. Following Committee approval, the Committee shall be consulted with respect to any material changes to the project financial structure, public benefits, or CDBG compliance.

The City Loan Committee shall be comprised of five members: the department heads of City's Department of Finance, Human Services Department, the Office of Housing; and two members from private lending institutions selected by the OED Director. The OED Director may attend Committee meetings but will not be an official Committee member. At least one representative from a private lending institution shall participate in any Committee meeting. If the private lending institution has a financial interest in the proposed project, such institution shall abstain from participating in the Committee meeting.

2. Public Benefits

The proposed project will clearly identify the public benefit(s) including CDBG National Objective to be achieved.

3. Loan Term (as permitted under federal regulations)

Section 108 loans shall not exceed a loan term of 20 years, with no loan to exceed the overall 20 year term of this loan fund and in no event to exceed the useful life of the asset being financed.

4. Interest Rate

Section 108 loans will carry a fixed rate for each maturity of principal pursuant to a HUD public offering; or floating rate based on a formula that is presently the 90 day LIBOR (London Interbank Offered Rate), as adjusted monthly, plus 20 basis points. The City may charge the borrower an interest rate that is higher or lower than the rate on the City's note. Any change in the interest rate will be discussed in the underwriting analysis.

5. Origination Fee to City

The City may assess a fee of up to 1% of principal amount.

6. Evidence of Site Control

Applicants for loans must demonstrate evidence of ownership or site control, such as an executed option or purchase and sale agreement.

7. Payments/Amortization

Section 108 loans may be amortized over the full term of the loan (e.g., 20 year amortization for a 20 year loan); amortization greater than the term of the loan may be considered (e.g., 30 year amortization for a 20 year loan), if the anticipated financial condition of the project is sufficient to sustain a balloon payment at the end of the term.

8. Ability to Repay

The analysis will identify the primary, secondary and, where considered necessary, tertiary sources of repayment for the loan. Projects will have at least a 1.2-projected debt coverage ratio, except that a lower debt coverage ratio, not less than 1.1, may be considered if the project's financial condition supports such a lower ratio (e.g., project has commitment of financially strong tenant(s) under long term lease).

Key repayment risks will be analyzed in detail, including an analysis of project financial assumptions compared to actual market conditions. The analysis will compare anticipated lease rate to similar properties, where applicable. Also, the analysis will compare anticipated vacancy rates to similar properties. The analysis will also describe the projected leasing time frame to achieve project stabilization and whether reserves exist to guard against delay. If there is a balloon payment at the end of the loan term, the analysis will describe the projected financial condition of the property on the maturity date, the project's ability to make the final payment and efforts to mitigate risk (e.g., replacement reserves to maintain the physical condition of the property). Debt service reserves may also be required.

In addition, OED will reference appropriate supporting documentation, such as a recent appraisal and 15 year operating pro forma to support our analysis.

9. Collateral

Section 108 loans should have a loan to value ratio not to exceed 80 percent at project stabilization. This value must be supported by an appraisal prior to funding. The City's security interest will typically be in the form of a deed of trust. The analysis will first determine whether the loan to value ratio exceeds 80 percent, using the property being financed as the sole source of value. If such calculation exceeds 80 percent, the analysis will then determine whether there is sufficient outside collateral to add as value, in order to meet the loan to value requirement. In certain cases, HUD permits outside guarantees to suffice for additional collateral, depending on the resources and financials of the individuals or entities providing such guarantees. The Loan Committee will decide whether to accept outside collateral and/or guarantees to meet the loan to value requirement. Consistent with customary underwriting practice, loan to value coverage will be determined based on expected value as of project stabilization (i.e., the point in time when the project has obtained the targeted debt coverage ratio). In addition to 80 percent loan to value, Section 108 loans should have a minimum collateral coverage of

100 percent of the loan amount. The collateral coverage analysis will use an advance rate/discount value of 80 percent of appraised value for property (determined at project stabilization). The analysis will describe how, prior to stabilization, construction risk and lease-up risk will be mitigated. The analysis will also identify key mitigation issues such as construction contingencies, reserves, guaranteed maximum price contract, and experience of the development team.

10. Development Team Capacity and Experience

Projects to be funded should have a development team that has both the capacity and demonstrated experience to complete the project as evidenced by past projects of similar size and scope, as well as financial strength. The analysis will include (i) resumes of development team members and (ii) a list of prior comparable projects completed by development team members with a description of project size and cost, and whether such projects were completed on time and on budget. Also, the analysis will describe development team members' experience with public funding sources and accompanying regulations as applicable (e.g., housing tax credits, Davis-Bacon).

11. Developer / Owner Commitment

Developer / owner commitment can take many forms. These commitments can include: developer / owner equity, guarantees of completion, guarantees to fund shortfalls or guarantees of minimum cash flow. The developer's financials will also be examined and analyzed.

12. Character

Projects to be funded should have developers with good credit histories, demonstrated integrity, and quality references.

13. Proposed Costs

The analysis will compare estimated development costs to costs of similar properties. Also, the analysis will determine whether estimated development costs have been prepared by a credible third party such as a contractor or other cost estimator. Finally, the City's loan commitments will be conditioned on a final guaranteed maximum price contract for development within the proposed budget.

14. Commitment of Funds

Projects seeking Section 108 loans should have commitments of construction and permanent financing. If private financing includes a right to adjust the interest rate after a certain point in time, the analysis will describe the effect of such a change on the Section 108 loan. Loan documents should contain adequate lender protections (e.g., default and cure privileges) for the City, subject to reasonable conditions of other lenders having priority over the Section 108 loan.

15. Need for Public Assistance

The analysis will determine whether the project can be developed feasibly with private financing alone or, in fact, requires public financial assistance to make the development feasible. OED will examine the reasonableness of a for-profit developer's fee compared to market rates. If the for-profit developer has an ownership stake in the project, OED will also examine the reasonableness of the developer's return under cash on cash return and internal rate of return ("IRR"). Cash on cash return measures the developer's cash return on a cash investment [i.e., cash flow ÷ equity]. IRR measures the rate at which the developer's investment grows over a long term period, taking into account periodic cash flows and property appreciation. As part of such analysis, an excessive developer fee/return will be reduced and put back into the project in the form of additional equity and/or additional reserves.

D. Pledge of CDBG Guarantee

The City of Seattle understands that if the borrowers from this Section 108 loan fund fail to make timely payments and the City of Seattle therefore fails to make a required payment on its note, HUD will deduct that payment from the City of Seattle's CDBG Line of Credit and in accepting this loan guarantee, the City of Seattle will pledge all grants made to the City or for which the City may become eligible under 24 CFR Part 570, as security for the guarantee.

E. Schedule for City's Repayment of Loan

In requesting approval of this loan guarantee the City of Seattle is requesting a commitment for a 20-year term. The City will act as the borrower and issue the guaranteed debt obligations, consistent with RCW 35.21.735. Please use the following principal repayment schedule. The sources of repayments will be payments on the loans from the proceeds of the guaranteed note, and the proceeds of the BEDI grant. The first loan is anticipated to close by August of 2005. Therefore the repayment period should run from 2005 through 2024.

Year	Principal Repayment
August 1, 2005	0
August 1, 2006	0
August 1, 2007	100,000
August 1, 2008	175,000
August 1, 2009	250,000
August 1, 2010	330,000
August 1, 2011	350,000
August 1, 2012	375,000
August 1, 2013	400,000
August 1, 2014	430,000
August 1, 2015	460,000
August 1, 2016	490,000
August 1, 2017	530,000
August 1, 2018	570,000
August 1, 2019	610,000
August 1, 2020	650,000
August 1, 2021	690,000

August 1, 2022	740,000
August 1, 2023	790,000
August 1, 2024	2,060,000
Total:	$10,000,000